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## Oases of Modernity Amid India's Desert of Public Services

By [SARITHA RAI](#)

BANGALORE, India, Oct. 2 — About 25 miles south of the Chennai airport, past rows of ramshackle shops and pavements crowded with roadside vendors and assorted cattle, a short turnoff leads to a gated modern oasis.

Inside, at complete variance with the chaos of its surroundings, are the lakes, promenades, lush landscaping and security systems of Mahindra World City. Its modern office high rises already house 4,000 workers with space for several thousand more.

This is the first of India's special economic zones, or S.E.Z.'s, which could offer a partial solution to the extreme weaknesses in India's infrastructure: narrow, pothole-filled roads; erratic supplies of electricity and other utility services; and inadequate communication links.

The zone strategy borrows from China's playbook, and in many ways, is a means to compete with China. In fact, if all goes according to government plan, hundreds of these privately run zones will sprout like miniature foreign islands, offering better infrastructure and jobs, increasing exports and attracting investment from foreigners.

Opposition, however is mounting from political parties, farmers' groups and economists over how land is acquired and how tax breaks are doled out for such projects. Last weekend, the president of the Congress Party, [Sonia Gandhi](#), a powerful force in the federal government, joined the chorus of critics. At a meeting of chief ministers of her party, Mrs. Gandhi rebuked local governments for being aggressive in acquiring land from farmers.

"Agricultural land should not be diverted for nonagricultural uses," she said.

Since the rules for the zones act were made final this year, hundreds of domestic and foreign companies have lined up at the government's doors for zone licenses so they can take advantage of the easier land acquisition rules and the generous tax benefits.

The government has formally approved 164 such licenses and 266 are pending clearance in the next few weeks. According to the government, the zones could generate 1.8 million jobs and attract \$80 billion in investment in the coming years.

In China, many government-developed economic zones like Shenzhen have been spectacularly successful in attracting international investors, and India is hoping to replicate that success.

"Any dependence on public infrastructure is proving futile, we are running out of hope there," said Subir Gokarn, chief economist at the rating agency Crisil. "The government is now moving on the assumption that if the public sector cannot deliver, let's try the private sector; that is the only chance it will work."

In India, providing infrastructure has traditionally been the government's domain. Only recently have private companies started building toll roads, managing airports and running utilities.

India is desperately in need of an infrastructure lift, even as its industrial output surged 12.4 percent in July, the fastest pace in the last decade. Prime Minister Manmohan Singh's government is trying to increase government spending on infrastructure to sustain the momentum, but the sums are only a fraction of what China spends.

Now the government's rush to sign on private investors is falling into trouble. The commerce ministry, which lobbied and succeeded in removing a cap on the total number of special economic zone approvals, is now facing off with the finance ministry, the Central Reserve Bank and the [International Monetary Fund](#). They protest that the tax breaks would seriously curb government revenue, by 900 billion rupees (\$19.6 billion).

Those championing the zones, like Kamal Nath, the minister of commerce and industry, have refused to back off. "These zones will boost exports and increase employment," Mr. Nath said.

In Chennai, the 1,300-acre Mahindra World City developed by the powerful industrial group Mahindra & Mahindra appears to illustrate Mr. Nath's point.

This first privately operated special economic zone has wide roads, street lighting, water and sewer networks, 24-hour private security, fiber optic cable and even a power station. Space in the zone is fully sold to an array of 32 international and domestic companies.

"Customers say our S.E.Z. compares with the best free-trade zones in Malaysia and China," said Anita Arjundas, chief operating officer of Mahindra World City.

Special economic zones are an attractive proposition for multinational companies like Dell and [Accenture](#), which have applied for licenses. The [Timken Company](#), based in Canton, Ohio, plans a \$1.2 billion investment in a special economic zone to increase its global production capacity.

"The environment is easier to manage, we get tax breaks, and we can cut down on start-up time," said Ashish Sinharoy, a spokesman for Timken. Roads, power and water supply, logistics support, material handling and customs clearance would all be in place.

But India's path is unlikely to be smooth, experts say. "China did it differently, its government created and invested in the islands of infrastructure," said Prakash Gurbaxani, chief executive of TSI Ventures, a collaboration between the property firm Tishman Speyer, which is based in New York, and ICICI Bank of India. "Ideally, the government should support S.E.Z.'s in the early stages."

In a recent issue of the International Monetary Fund's quarterly magazine, its chief economist, Raghuram G. Rajan, said that although such zones were laudable, the government should offer only limited tax breaks to developers.

The Central Reserve Bank has said it is concerned over the revenue losses because of provisions like a complete tax holiday for economic zones for the first five years and a 50 percent break for the next five.

The land acquisition has also generated controversy, with several critics including some from the governing Congress Party calling the process a sophisticated land grab and a real estate scam. With each zone requiring that thousands of acres be granted by the government, critics said corruption was bound to become rampant in the process.

In many pockets of rural Maharashtra state where the local government is busy acquiring land for these zones, farmers' groups have sworn not to part with an inch of their land. One such group, the National

Alliance of People's Movements, has threatened large-scale agitation if farmers' land is taken away.

"Why cannot they subsidize farmers by building schools, roads and hospitals and providing us with power supply?" asked Sanjay Sangvai, the spokesman in Pune for the National Alliance.

Backers of the economic zones, though, are optimistic. "India will have a very India-specific model as we do not have large lands available," said Mr. Nath, the commerce minister. "Even though the projects will be small in scale, they will nevertheless be major engines of growth."

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